

INTERNAL REVENUE SERVICE

DEPARTMENT OF THE TREASURY

Regional Counsel

Midwest Region

Address any reply to:

[REDACTED]

Person to Contact:

[REDACTED]

Telephone Number:

[REDACTED]

Refer Reply to:

[REDACTED]

Date:

AUG 24 1990

Key District:

[REDACTED]

Years:

[REDACTED]

Gentlemen:

We considered your appeal of the adverse action proposed by your key District Director.

Your exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code is denied. You are required to file Federal income tax returns on Form 1120 for the above years. You should file these returns with your key District Director, EP/EO Division, within 30 days from the date of this letter, unless a request for extension of time is granted. For your information, Code section 277 is applicable to non-exempt social clubs and membership organizations.

You may direct questions about the decision to the appeals officer whose name and telephone number are shown above.

Sincerely,

[REDACTED]

Associate Chief  
St. Paul Appeals Office

cc: [REDACTED]

**CERTIFIED**

Person to Contact: [REDACTED]  
 Telephone Number: [REDACTED]  
 Refer Reply to:  
 Internal Revenue Service  
 [REDACTED]

Date: MAY 29 1990

Dear Applicant:

We have considered your application for recognition of exemption from Federal Income Tax under Section 501(c)(7) of the Internal Revenue Code.

The information submitted discloses that you were incorporated on [REDACTED], under the nonprofit corporation laws of the State of [REDACTED].

According to your Articles of Incorporation, the primary purposes for which your corporation is organized are:

(1) a sanctioning body setting the rules and conduct under which its members participate in stock car racing events; (2) as a sanctioning body which can contract with a race track facility owner to race under the rules of [REDACTED]; (3) as a track operator; (4) as a fund raiser to support stock car racing; (5) such other purposes necessary to operate and maintain a stock car race track; and (6) any other purpose not prohibited by law.

The primary activity of your organization is to conduct automobile races at [REDACTED]. These races are open to the general public. A sample advertisement is attached as Exhibit 1. Sample photographs are attached as Exhibit 2.

The following statement appeared in your application Form 1024:

Nonmembers attend weekly auto racing events and are admitted for a gate charge. Nonmembers also purchase concessions (food and beverage) items and participate in other functions for prizes, such as bingo. Net proceeds from gate admission and concession charges are used for race track upkeep and for driver payout.

According to the financial data submitted, more than [REDACTED]% of your gross income is derived from the general public. In addition, you have distributed \$[REDACTED] in prize money to your members.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
	[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	
Surname	[REDACTED]	[REDACTED]	[REDACTED]			[REDACTED]	
Date	5/24/90	5/24/90	5/24/90			5/25/90	

Section 501(c)(7) of the Code provides for exemption from Federal Income Tax of clubs organized and operated exclusively for pleasure, recreation, and other nonproftable purposes, no part of the net earnings of which inures to the benefit of any private shareholder.

Section 1.501(c)(7)-1(a) of the Income Tax Regulations provides that Section 501(c)(7) of the Code applies only to clubs which are organized and operated exclusively for pleasure, recreation and other nonproftable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues and assessments.

Public Law 94-568 (Senate Report 94-1318, 2d Session, 1976-2 C.B. 597, 599) provides that social clubs are allowed to receive up to 35% of all gross receipts, including investment income, from nonmember sources. No more than 15% of all gross receipts may be derived from the general public's use of the club facilities and/or services.

Since the general public is invited to your social and recreational events and your receipts therefrom are a substantial part of your total income, it is evident that you are not operating as a social club within the intendment of Section 501(c)(7) of the Code. In addition, the distribution of prize money to your members is outside the scope of exempt status under Section 501(c)(7).

Accordingly, we hold that you are not entitled to exemption from Federal Income Tax as an organization described in Section 501(c)(7) of the Code. Accordingly, you are required to file Federal income tax returns on Form 1120.

If you do not agree with these conclusions, you may within 30 days from the date of this letter, file a brief of the facts, law and arguments (in duplicate) which clearly sets forth your position. In the event you desire an oral discussion of the issues, you should so indicate in your submission. A conference will be arranged in the Regional Office after you have submitted your brief to the Chicago District Office and we have had an opportunity to consider the brief and it appears that the conclusions reached are still unfavorable to you. Any submission must be signed by one of your principal officers. If the matter is to be handled by a representative, the Conference and Practice Requirements regarding the filing of a power of attorney and evidence of enrollment to practice must be met. We have enclosed Publication 892, Exempt Organization Appeal Procedures for Adverse Determinations, which explains in detail your rights and procedures.

[REDACTED]

If we do not hear from you within 30 days from the date of this letter this determination will become final.

Please keep this determination letter in your permanent records.

If you agree with this determination please sign and return the enclosed Form 6018.

Very truly yours,

[REDACTED]

District Director

Enclosures:  
Publication 892  
Form 6018